STATE OF UTAH INSURANCE DEPARTMENT

FINANCIAL EXAMINATION REPORT

OF

BENCHOICE, INC.

OF

MURRAY, UTAH

AS OF

FEBRUARY 29, 2004

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April 22, 2004

Honorable Merwin U. Stewart, Commissioner
Utah Insurance Department
State Office Building, Room 3110
Salt Lake City, Utah 84114

In accordance with your instructions and in compliance with Utah Code Annotated (U.C.A.) Title 31A, an examination was conducted as of February 29, 2004, of the financial condition and business affairs of

BENCHOICE, INC.
of
Murray, Utah

a stock limited health plan, hereinafter referred to as the Company.

SCOPE OF EXAMINATION

Period Covered by Examination

The last examination was made as of December 31, 1999. The current examination covers the period from January 1, 2000, through February 29, 2004, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

Examination Procedure Employed

The examination was conducted to determine compliance with accounting practices and procedures in conformity with the applicable laws of the State of Utah, insurance rules promulgated by the Utah Insurance Department (Department), and Statements of Statutory Accounting Principles (SSAPs) contained within the Accounting Practices and Procedures Manual promulgated by the National Association of Insurance Commissioners (NAIC).

The examination included a general review and analysis of the Company's operations, the manner in which its business was conducted during the examination period and a determination of its financial condition as of February 29, 2004. Assets were verified and valued, and liabilities were determined or estimated.

The Company had not retained a certified public accounting firm to audit its financial records for the years under examination.

A letter of representation certifying that management has disclosed all significant matters and records was obtained from management and has been included in the examination work papers.

Status of Adverse Findings, Material Changes in the Financial Statement, and Other Significant Regulatory Information Disclosed in the Previous Examination

The Company has not established a conflict of interest policy nor obtained fidelity coverage as recommended in the previous examination.

HISTORY

General

In 1996, the Company was organized to provide limited health plans for individuals and groups as provided for in the Utah Code Annotated (U.C.A.) §31A-8-102. A certificate of authority authorizing the Company to furnish, through arrangements with others, the services of optometrists, pursuant to §31A-8-101(6)(a), was issued by the Department, effective July 8, 1996.

There were no amendments to the articles of incorporation or the bylaws during years under examination.

Capital Stock

The Company is authorized to issue 50,000 shares of common stock with a par value of $1 per share. Ten thousand shares are issued and outstanding.

The Beverly J. Pond Family Living Trust (Trust) owns 51% of the issued and outstanding common stock of the Company. Talmage J. Pond is Trustee of the Trust.

Talmage J. Pond owns 49% of the issued and outstanding common stock. Talmage J. Pond is the ultimate controlling person of the Company.

Capital Distributions/Dividends to Stockholders

2000		$	2,586
2001			2,617
2002			0
2003			723
2004			63,387
	Total	$	69,313

In January of 2004, the Company paid to the majority stockholder, the Beverly J. Pond Family Living Trust, $15,000 directly from the proceeds of a matured certificate of deposit (CD).

In February of 2004, the Company paid to the Beverly J. Pond Family Living Trust, through the Company's affiliate, Benchoice Insurance Agency, LLC, $48,000 from the proceeds of a Small Business Administration (SBA) loan.

The Company did not provide the Commissioner notice of these extraordinary distributions pursuant to U.C.A. §31A-16-106(2)(a). As a result of these distributions, the Company is presently insolvent.

Management

Management of the Company is vested in its board of directors. As of February 29, 2004, there were three directors. The directors, as currently constituted, are as follows:

Name/Residence	Principal Occupation
Talmage Jensen Pond Salt Lake City, Utah	President Benchoice, Inc.
Lori D. Pond Salt Lake City, Utah	Owner Benchoice Insurance Agency, LLC.
Todd Berg Duzett Salt Lake City, Utah	Director of Operations Dispute Resolution Management, Inc.

Senior Officers serving the Company as of February 29, 2004, were:

Officer	Title
Talmage Jensen Pond	President & Treasurer
Nedra Duzett	Secretary

There were no Board committees as of February 29, 2004.

The Department, on September 15, 2003, revoked the insurance agent license of Talmage Pond. This action was taken because he "participated in and assisted numerous individuals and corporate entities in the doing of an unauthorized insurance business in the State of Utah". Talmage J. Pond was President of American Benefits & Insurance Services, Inc., dba American Benefits & Insurance Group, whose agency license was revoked on August 19, 2003, for issuing certificates of insurance as an insurer and accepting premiums for workers compensation insurance when it was not authorized to act as an insurer.

Conflict of Interest Procedure

The Company did not have an established procedure for the disclosure, to the board of directors, of any material conflict of interest on the part of its officers or directors.

Corporate Records

Corporate records generated for and during the examination period were reviewed. The records consisted of minutes from the meetings of the shareholders, which also constituted the meetings of directors. The minutes contain information about the Company including approval of cost sharing and marketing agreements, and elections of officers and directors. The Company did not provide to the examiner evidence that the prior examination report, as of December 31, 1999, was distributed to the board of directors pursuant to U.C.A. §31A-2-204(8).

Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance

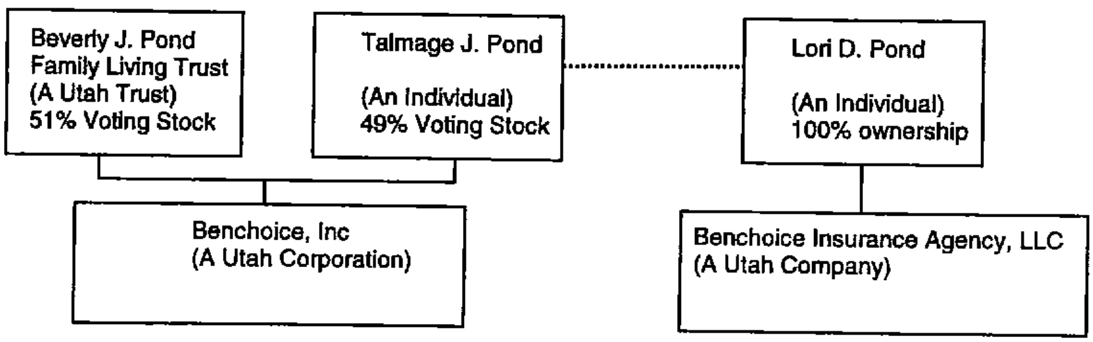
There were no acquisitions, mergers, disposals, dissolutions and purchases or sales through reinsurance that involved the Company during the examination period.

Surplus Debentures

During the period covered by the examination, the Company was not a party to any surplus debentures.

AFFILIATED COMPANIES

The Company was a member of the insurance holding company system indicated below as of February 29, 2004:



Note: Talmage J. Pond and Lori D. Pond are married.

The property of the Trust, including 5100 shares of Benchoice, Inc. common stock, is equally shared among the five living children of Beverly J. Pond. Talmage J. Pond, one of the living children of Beverly J. Pond, is Trustee of the Trust with a 20% share.

Cost-sharing Agreements and Significant Regulatory Information Concerning Parent, Subsidiaries, and Affiliates

In July 2000, the Company executed a memo of understanding with Benchoice Insurance Agency, LLC. The memorandum states, "Be it known that Benchoice, Inc. and Benchoice Insurance Agency, LLC have an agreement wherein Benchoice, Inc. will reimburse, as available, Benchoice Insurance Agency for expenses for the office space and staff." The company did not file the agreement with the department pursuant to U.C.A. §31A-16-106.

In the twelve-month period immediately prior to the examination date, the Company paid $24,000 to Benchoice Insurance Agency, LLC. The general ledger identifies these payments as marketing fees, but the examiner was not provided documentation supporting these expenses.

The memo of understanding does not provide sufficient parameters to quantify the obligations between the related parties relative to the sharing of costs.

FIDELITY BOND AND OTHER INSURANCE

The minimum fidelity coverage suggested by the National Association of Insurance Commissioners (NAIC) for an entity of the Company's size and premium volume is not less than $25,000. As of February 29, 2004, the Company did not have fidelity coverage. This is a repeat finding from the prior examination.

The Company did not have additional insurance protection against loss from property and liability risks.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has no direct employees and is not a party to any type of retirement plan or deferred compensation plan.

STATUTORY DEPOSITS

Pursuant to U.C.A. §31A-8-211(3)(a), the Company was required, as of February 29, 2004, to maintain a deposit in the amount of $12,500.

A statutory deposit held through the Department for the primary benefit of all policyholders as of February 29, 2004, was as follows:

State	Description	Statement Value	Fair Value
Utah	Certificate of Deposit 6.11%	$ 15,000	$ 15,000

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

The Company's principal line of business is prepaid optical insurance. Optical plan providers are compensated with capitation payments for optical services provided to plan subscribers. The capitation payment amount to a plan provider is 70% of subscriber premiums.

Territory and Plan of Operation

The Company was authorized to transact optical insurance as a limited health plan only in the State of Utah as of February 29, 2004.

Advertising and Sales Material

The Company did not utilize any form of commercial advertising during the examination period.

Treatment of Policyholders

The Company had a written grievance procedure and maintained a complaint log to monitor complaints. As of February 29, 2004, and during the examination, the number of complaints was not significant and all complains had been resolved by the Company. The Department had not received any written complaints.

REINSURANCE

Ceded/Assumed

During the period covered by the examination, the Company neither ceded nor assumed reinsurance. The risks undertaken by the Company were minimal.

ACCOUNTS AND RECORDS

The Accounts and Records of the Company are maintained on personal computer systems owned and operated by Benchoice Insurance Agency, LLC. The general ledger and investment information are also currently maintained on computers.

The Company made available paper and electronic documentation of its general ledger. The adjusted general ledger trial balance as of December 31, 2003 was tied to and agreed to various parts of the Annual Statement.

The following record keeping deficiencies were noted by the examination:

- The general ledger was maintained on a cash basis, rather than an accrual basis, and did not record and recognize uncollected premium, unpaid capitation payments, unpaid general expenses, and borrowed money as required by various SSAPs.

- Cash transactions for the receipt of a small number of periodic subscriber premiums, held in an unreported bank account, were not recorded and recognized in the general ledger.

- The distribution of proceeds from the maturity of a single $15,000 certificate of deposit was not recorded and recognized in the general ledger. The monies were deposited to the account of the Beverly J. Pond Family Living Trust, the majority stockholder, as discussed in the Capital Distributions section.

- The $110,000 SBA loan and the distribution of the loan proceeds were not recorded and recognized in the general ledger. The loan proceeds were distributed as follows: $57,265 to Benchoice Insurance Agency, LLC, an affiliate, of which $48,000 was distributed to the Beverly J. Pond Family Living Trust; $50,000 for the purchase of a single $50,000 certificate of deposit; and $2,735 for various bank fees.

FINANCIAL STATEMENT

The following financial statements are included in the examination report:

Balance Sheet as of February 29, 2004

Statement of Revenue and Expenses for the two month period ended February 29, 2004

Capital and Surplus for the Period 2000 through February 29, 2004

The Comments on Financial Statement immediately following the financial statements are an integral part of the statements.

BENCHOICE, INC.
Balance Sheet as of
February 29, 2004

ASSETS

		Amount	
Cash and short-term investments	$	15,453	(1)
Other invested assets		65,000	(2)
Uncollected premiums and agents' balances in the course of collection		14,086	(3)
Health care and other amounts receivable		3,159	(4)
Total assets		97,698	

LIABILITIES, CAPITAL AND SURPLUS

Claims unpaid		15,152	(5)
General expenses due or accrued		3,158	(6)
Borrowed money		110,000	(7)
Total liabilities		128,310	
Common capital stock		10,000	
Gross paid in and contributed surplus		-	
Unassigned funds (surplus)		(40,612)	
Total capital and surplus		(30,612)	
Total liabilities, capital and surplus	$	97,698	

BENCHOICE, INC.
Statement of Revenue and Expenses
For the two month period ended February 29, 2004

Net premium income	$ 72,283
Total revenues	72,283
Other professional services: Compensation to non-physician providers	42,813
Total hospital and medical	42,813
General administrative expenses	22,280
Total underwriting deductions	65,093
Net underwriting gain or (loss)	7,190
Net investment income earned	1,607
Net realized capital gains or (losses)	0
Net income or (loss) before federal income taxes	8,797
Federal and foreign income taxes incurred	0
Net income (loss)	$ 8,797

BENCHOICE, INC.
Capital and Surplus
for the Period 2000 through February 29, 2004

	2000	2001	2002	2003	29-Feb-04
Capital and surplus, December 31, previous year	$ 41,901	$ 34,905	$ 34,985	$ 35,003	$ 38,018
Net Income or (loss)	(4,410)	2,697	18	9,928	8,797
Change in nonadmitted assets					(3,094)
Capital Changes: Paid In				(6,378)	
Aggregate write-ins for gains or (Losses) in surplus:				188	(1,681)
Surplus adjustments:					
Transferred from capital					(72,265)
Dividends to stockholders	(2,586)	(2,617)		(723)	(387)
Net change in capital and surplus for the year	(6,996)	80	18	3,015	(68,630)
Capital and surplus, December 31, current year	$ 34,905	$ 34,985	$ 35,003	$ 38,018	$ (30,612)

COMMENTS ON FINANCIAL STATEMENT

(1) Cash and short term investments $15,453

The Company's general ledger reported cash and short term investments of $15,176. The asset disclosed on the balance sheet contained in this examination report was $15,453. The asset was increased to include a small bank account not recorded in the general ledger of the Company.

(2) Other invested assets $65,000

The Company's general ledger reported other invested assets of $30,000. The asset disclosed on the balance sheet contained in this examination report was $65,000. The difference is the net amount from the purchase of a $50,000 CD and the maturity of a single $15,000 CD. These transactions were not recorded in the general ledger.

(3) Uncollected premium and agents' balances in the course of collection $14,086

The Company's general ledger did not report an accrual for uncollected premium. The asset disclosed on the balance sheet contained in this examination report was $14,086. The asset was recognized to account for the accrual of premium earned but not received as of the examination date.

(4) Health care and other amounts receivable $3,159

The Company's general ledger reported health care and other amounts receivable of $8,950. The asset disclosed on the balance sheet contained in this examination report was $3,159. The asset was decreased for receivables that were greater than 90 days overdue and additional amounts that were determined to be uncollectible. The asset was also decreased to reflect the realized loss on the disposal of a mutual fund investment the previous year. The asset was increased to reflect the reinvestment of dividend income over the period of several years for a small bond mutual fund.

(5) Claims unpaid $15,152

The Company's general ledger did not report an accrual for claims unpaid (capitation payments). The liability disclosed on the balance sheet contained in this examination report was $15,152. The liability was increased to recognize an obligation for optical services provided but for which capitation payments had not been paid as of the examination date.

(6) General expenses due or accrued $3,158

The Company's general ledger did not report a liability for general expenses due or accrued. The liability disclosed on the balance sheet contained in this examination report was $3,158. The liability was increased to recognize an obligation for general administrative services provided but for which payments had not been paid as of the examination date.

(7) Borrowed money $110,000

The Company's general ledger did not report an accrual for borrowed money. The liability disclosed on the balance sheet contained in this examination report was $110,000. The liability was recognized to account for an SBA loan not disclosed on the general ledger as of the examination date.

(8) Capital loss on investment $0

The Company's general ledger included a negative liability for capital loss on investment of $1,681 for the sale of a small bond fund in the prior quarter. The liability was reclassified as an expense and the retained earnings account was adjusted.

CAPITAL AND SURPLUS

The Company's capital and surplus was determined to be $86,419 less than recorded in the general ledger as of February 29, 2004. The following schedule identifies the examination changes:

Description	Company G/L	Per Examination	Surplus Increase (Decrease)	Notes
Cash and short term investments	$ 15,176	$ 15,453	$ 277	(1)
Other Invested Assets	30,000	65,000	35,000	(2)
Uncollected premiums	0	14,086	14,086	(3)
Health care receivables	8,950	3,159	(5,791)	(4)
Claims unpaid	0	(15,152)	(15,152)	(5)
General expenses	0	(3,158)	(3,158)	(6)
Borrowed money	0	(110,000)	(110,000)	(7)
Capital loss on investment	1,681	0	(1,681)	(8)
Total changes			(86,419)	
Capital and surplus per Organization			55,807	
Capital and surplus per Examination			$ (30,612)	

Pursuant to U.C.A. §31A-8-209(2)(a), the Company is required to maintain minimum capital in the amount of $10,000. The Company reported total adjusted capital of $38,018 and an authorized control level risk-based capital (RBC) requirement of $4,916 as of December 31, 2003.

The examination determined total adjusted capital to be negative $30,612 as of February 29, 2004. With negative total adjusted capital the Company is in a condition of insolvency.

SUMMARY

Items of significance or special interest contained in this report are summarized below:

Pursuant to U.C.A. §31A-8-209(2)(a), the Company is required to maintain minimum capital in the amount of $10,000. The Company reported total adjusted capital of $38,018 and an authorized control level risk-based capital (RBC) requirement of $4,916 as of December 31, 2002. The examination determined total adjusted capital to be negative $30,612 as of February 29, 2004. With negative total adjusted capital the Company is in a condition of insolvency.

The Company paid two large capital distributions to the majority stockholder, the Beverly J. Pond Family Living Trust. The Company did not provide notice to the Commissioner, pursuant to U.C.A. §31A-16-106(2)(a), for these extraordinary distribution payments. These distributions resulted in the present insolvent condition of the Company. (Capital Distributions/Dividends to Stockholders)

CONCLUSION

The assistance and cooperation extended during the course of the examination by officers, employees and representatives of the Company are acknowledged.

Respectfully submitted,

Donald R. Catmull, AFE
Examiner in Charge, representing the
Utah Insurance Department